



SENATOR

Phil Rockefeller

E-Newsletter - 23rd District, Bainbridge Island

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23rd Legislative District

February 27, 2009

Dear Neighbors,

Our state is going through an unprecedented budget situation. I have not witnessed anything quite like it in my many years at the legislature.

I believe one of the most important steps forward is open communication and helping one another in the ways we can.

In this e-newsletter I have focused on an overview of our state budget. I hope learning about this process will help connect you to the work we are doing in Olympia and gives you insight into the kind of decisions we will have to make.

Please visit the Senate Democratic website for more detailed information:

SenateDemocrats.wa.gov/issues/budget/

This is the first of many e-newsletters I hope to send you and if at any time you wish to be removed from the list, please click on the link at the bottom.

Warm Regards,

A handwritten signature of Phil Rockefeller in black ink.

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Economic hurricane

Lawmakers have known for a while that tough economic times were in store for our state. When we left Olympia last session, we put \$850 million towards state savings accounts.

In 2007, we adopted a similar strategy when we created the constitutionally-protected Rainy Day Fund, and put \$724 million in savings.

Since the 1980s, the average of annual total state reserves has been \$400 million. For three years in a row, we've doubled that.

While we saw storm clouds on the horizon—and prepared as best we could—no one could have predicted that the storm would turn out to be an unprecedented category five economic hurricane.

The national and international financial crisis is the greatest of its kind since the Great Depression.

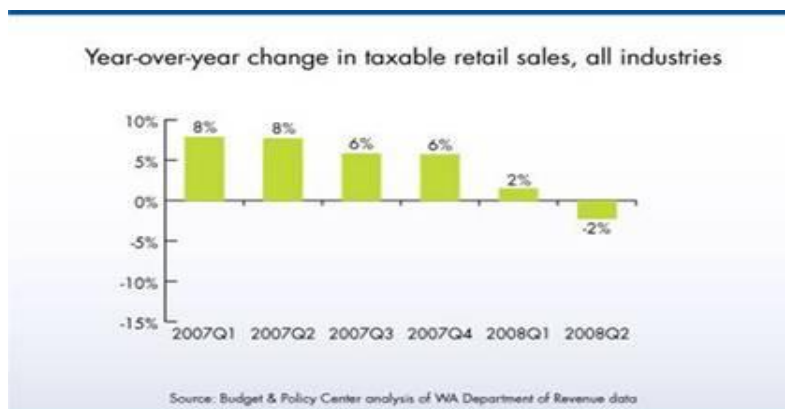
By now, we're all familiar with the headlines about the subprime mortgage crisis, and how the unsound lending practices that upended homeowners' finances all across the country would eventually take down the country's financial market as well.

Today, it's well-understood that this has had a chilling effect on the flow of credit to consumers and businesses, and that this credit squeeze—which hampers businesses' ability to meet payroll or make inventories—has crippled state economies across the nation.

At least 46 states are facing operating budget shortfalls, including Washington. The combined shortfall for the states over the next two-year cycle is estimated at over \$350 billion.

Even though Forbes ranked Washington the nation's third-best state to do business in, and the Pew Research Center for the States named Washington the best-managed state in the nation in 2008, the economic downturn and credit crisis has significantly impacted our state economy and state government.

In Washington, where there is no personal or corporate income tax, retail sales make up over half of state revenue in the operating budget. As you can see in the graph below, our sales tax collections have plummeted during the economic crisis:



This, in turn, has created a \$8.3 billion (25 percent) gap between our current commitments in education, health care, public safety and environmental protection on the one hand and the current revenues needed to support those commitments on the other. Unfortunately, this forecast is predicted to grow worse by next month.

This is an unprecedented challenge. The shortfall is the largest in modern state history, both in terms of total dollars and in percentage of the overall budget.

But this alone doesn't begin to illustrate the magnitude of the problem.

Cut our way out?

Let's say you were the budget writer for the state studying a breakdown of the types of programs we fund in our state's \$36.9 billion two-year budget for ongoing operations. A majority is spent in education and human services.

Now let's say you wanted to close the budget shortfall entirely through cuts.

You couldn't simply adopt a 25 percent across-the-board cut because of the following restrictions:

- Basic K-12 education funding is protected by the state constitution
- Medical assistance—i.e. Medicaid—is protected by the federal government
- Debt service and corrections are expenditures that the state either cannot default or has to make for the safety of the population

Backing these mandatory funds out of the equation leaves about 40 percent of the budget left—which is where cuts must come from to close the shortfall. In other words, you'd need to cut \$8.3 billion not from \$37 billion, but from \$18.5 billion.

The initial, all-cuts budget proposed in December makes significant cuts to human services and health care.

Examples of the initial budget proposal's cuts include:

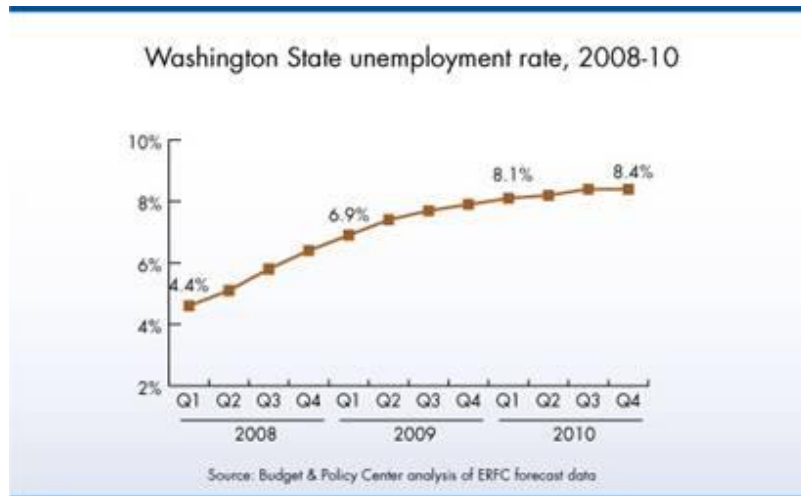
- Reducing health coverage for up to 40,000 low-income people
- Eliminating housing, medical care and drug and alcohol treatment for 27,500 low-income individuals with physical and mental disabilities
- Eliminating adult day health care for 1,900 disabled and elderly people
- Eliminating the universal vaccine program
- Cutting community mental health treatment

The Legislature is still examining this initial all-cuts proposal, which is based on the premise that increasing revenue in an economic downturn hampers our economic revival.

This is a legitimate concern, but what if it unwittingly produces exactly the result it was designed to avoid?

Short term savings, long term costs

The costs of our current economic situation are already huge. In Washington, in little over a year, we've gone from record low unemployment to record numbers of people applying for unemployment benefits.



Writing the next two-year budget should seek to stop the bleeding and avoid decisions today that translate into even greater costs tomorrow.

State government spends money chiefly in the delivery of services, not in the purchasing of goods. In the main, cuts to government result in cuts to services, and the jobs of the people who deliver those services. From an economic perspective, the loss of 1,000 state jobs is the same as the loss of 1,000 Boeing jobs, and contributes to the same downward spiral that is already being felt from widespread layoffs in the private sector.

Economics professor Dick Startz of the University of Washington estimates that every \$1 billion reduction in annual state government spending during the recession will cost Washington about 15,000 public and private sector jobs.

Economically speaking, clearly the most effective stimulus is to refrain from cutting existing jobs and accelerating the economic decline. But future jobs losses aren't the only costs we should be concerned about when writing this budget.

For example, keeping health care funding intact today is essential to avoiding much larger costs in emergency room visits tomorrow. The average cost of a visit to the doctor's office is between \$100 and \$150, depending on your age. The average trip to the emergency rooms runs upwards of \$800.

If we cut the state's Basic Health Plan by 40 percent—as has been proposed—40,000 individuals in our communities would no longer have a viable option to receiving needed medical care. That's a crowd large enough to sell out Safeco Field.

The public sector does play a role

People increasingly see the public sector as having a role to play in our common economic recovery. President Barack Obama's ambitious plan for federal stimulus was one of the many reasons he was successful in his campaign for the presidency.

The federal stimulus package, while very helpful to us here in Washington, is not a bailout bill for the states. Federal funds for the states are very narrowly categorized to specific programs, and come with a number of strings attached. It will optimistically help us address about *one quarter* of our budget shortfall at the state level.

The injection of billions of dollars in federal money into our state's economy will undoubtedly provide a stimulus, and we're happy to have it.

But our challenge is to *not cancel out* President Obama's good work by taking an even greater amount out of our economy in the form of wholesale cuts to vital state services.

The Legislature is going to have to make significant cuts. But if we slam on the fiscal brakes at the same time the federal government is putting its foot on the fiscal gas, we could still end up in the ditch.